

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7673

BILL NUMBER: HB 1870

NOTE PREPARED: Feb 24, 2003

BILL AMENDED:

SUBJECT: Rental property tax deductions.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes standards for the determination of the true tax value of low income housing. The bill also provides a property tax deduction for buildings containing principal rental dwellings.

Effective Date: March 1, 2003 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) The State levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. As explained below in *Explanation of Local Revenues*, this bill could result in an AV reduction of \$11.1 B. The reduction in state revenue is estimated at \$180,000 in FY 2004 and \$360,000 per year beginning in FY 2005.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Assessment of Low Income Rental Housing:* The bill would limit assessors to the use of the capitalization of income method on low income rental housing and would prohibit consideration of tax credits or government subsidies in determining the value of this property. The restrictions on the method of assessment and on the income considered would reduce the statewide total assessed value of low income rental housing by an estimated 58% or \$245 M. This estimate is based on the number of low income housing units and federal payments as reported by HUD.

Multi-Dwelling Rental Unit Deduction: Under this proposal, each rental property would be eligible for a property tax deduction. The deduction would vary depending on the number of units in a building and would equal the following:

Buildings with less than five units – The lesser of 50% of land & improvement AV or \$35,000 total;

Buildings with 5 - 8 units – The lesser of 50% of land & improvement AV or \$8,750 per unit;
Buildings with 9 - 20 units – The lesser of 50% of land & improvement AV or \$5,250 per unit; and
Buildings with more than 20 units – The lesser of 50% of land & improvement AV or \$3,500 per unit.

According to 2000 Census figures, there were about 187,750 single unit rentals, 84,900 units in 2-unit buildings, 100,800 units in 3- or 4-unit buildings, 115,300 units in 5-9 unit buildings, 81,400 units in 10-19 unit buildings, and 104,900 units in buildings containing at least 20 dwellings. The total maximum statewide deduction under this provision is estimated at about \$10.9 B.

Summary: The combined potential reduction in AV as a result of all provisions in this bill is estimated at about \$11.1 B. A reduction of the assessed value base causes a shift of the property tax burden from the taxpayers receiving the AV reduction to all taxpayers in the form of an increased tax rate. An \$11.1 B reduction in AV would cause an estimated \$0.0849, or 4.4%, increase in the statewide average net tax rate, causing a shift to other taxpayers of about \$216 M in CY 2004.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County and township assessors; County auditors.

Information Sources: Kurt Barrow, Director of Assessments, Department of Local Government Finance, (317) 232-3777; *Statistical Abstract of the United States*, Bureau of the Census; Local Government Database; A Picture of Subsidized Households, HUD Dataset, www.huduser.org.

Fiscal Analyst: Bob Sigalow, 317-232-9859